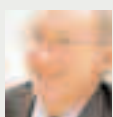


Ask the experts:

The future of Scotland

What does Scotland have to do to retain its position as a leading financial services centre? With The Treasurers' Conference taking place in Edinburgh in May, three ACT members intimately concerned with the corporate scene in Scotland gave their prognosis for the future of the country and its businesses.



Adrian Coats, Chairman of The Treasurers' Conference 2007 and Director of Treasury at Scottish Power

The current acquisition of ScottishPower by Spanish utility Iberdrola continues the trend of constant decline of large quoted companies in Scotland. The danger is that we are seen as being on the fringes of Europe. Although we do have a successful financial services sector, we need to ensure we take action to preserve that sector if we can.

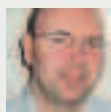
If you exclude HBOS, in terms of market capitalisation, RBS is bigger than all the other Scottish quoted companies combined. In that sense, and taking into account the significant fund management activities we have in Scotland, there is a complete imbalance in terms of the financial services sector versus every other independent sector.

Financial management and financial services still represent a big success story in Scotland and must be seen as a way of taking the country forward. But we also have to ask what we need to do to make sure that there are other sectors which can show the same sort of success and drive. While we have strong expertise in financial services we have to ask in what other sectors we have similar areas of sustainable expertise. Scotland has to be more than just a provider of canny financial services.

Scotland still has an excellent reputation for its education system and I hear a lot of favourable comment about the high quality and training of Scottish staff. That must continue to be an area of focus and it is something that can set Scotland apart from the rest of the UK. At the same time I would not want to see that separation become too great in other areas.

It is a difficult issue. A century ago Scotland had a GDP per head that exceeded that of England, thanks largely to transatlantic trade and textiles. Now it is the other way round and, by most measures, Scotland draws support

from elsewhere. We all want Scotland to prosper through a variety of means. Could we do what the Irish have done?



John Rowan, Head of Banking Asset and Liability Management, HBOS

Over the past decade the Scottish banks have taken a lead in leveraged buyouts and funding for private equity transactions, historically punching above their weight. With the growth in capital strength and scale over the past five years, this position has been consolidated. A willingness to look at proposals from a different angle suggests to me a differentiated culture with the banks rather than any particular 'Scottish' slant, although I believe we Scots regard ourselves as more entrepreneurial by nature, so perhaps it does count.

Overall, I don't think we can ignore the growth of London as the leading worldwide financial hub. Undoubtedly, Scotland has benefited from this growth and the two are strongly linked.

The question here is twofold: what is the sector doing to support innovation within the Scottish economy? And how is it thinking outside the box and beyond our own borders to differentiate itself from competing financial services sectors?

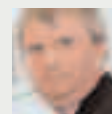
There are good business angel networks and the local investment networking companies are well established to support new companies and those seeking further investment. Naturally, I would argue that the banking sector is supportive.

With respect to financial services innovation I don't believe we are stuck in a rut, but the litmus test must be how others see us. Are we receiving more than our fair share of mandates or just enough?

Our chairman refers to the group having "platform tickets" into new markets, meaning putting a foot over the threshold but not betting

the bank. I see evidence of this on differing scales in banking, insurance and asset management markets from the Scottish financial community.

While the sector looks to and partners public bodies to develop the playing field, ultimately it is up to the individual constituents to play their best game for their own good, which in turn should benefit the sector as a whole.



John Jackson, Group Treasurer, Scottish & Newcastle

The Scottish economy is dwarfed by the two large Scottish banks, HBOS and in particular RBS. Although these two have substantial head offices in Scotland, their treasury operations, for instance, are based principally in London. While there are a number of other large entities based up here, including life funds, some power companies and others, Scotland is particularly vulnerable to globalisation given the relatively small number of large corporates currently based here.

However, I feel the real asset the country has is its very high talent base, mostly home-grown and including people who have moved to gain experience in other financial centres and then returned to Scotland. The strong financial sector also provides critical mass. On top of that you have an environment which provides an excellent quality of life, giving a distinct choice from, say, London.

So what does Scotland have to do? I think it has to continue to provide this flow of talented people and maintain political and economic certainty. Obviously, the independence question is prominent with the strength of support for the Scottish National Party and that may lead in the future to Scotland creating a low-tax environment akin to, say, Luxembourg or Ireland.

At Scottish & Newcastle we continue to focus on building our successes in the emerging markets and watching out for the impact of the smoking ban coming soon south of the border.